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SUBJECT: ATLANTIC CANADA ENERGY UPDATE

REF: HALIFAX 0012 AND PREVIOUS

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SUMMARY:

1. Canadian federal government plans to develop an Atlantic energy gateway to the United States ignited a political war of words with the province of New Brunswick, which was already working on a similar concept with the State of Maine. The political wrangling, however, has had no effect on Newfoundland-Labrador's study into different power transmission options from its proposed Lower Churchill project. Newfoundland-Labrador (N-L) signed an historic agreement with Quebec to allow the N-L to sell power from its existing Upper Churchill Falls facility directly into the energy market for the first time. In other energy developments, utility companies in Nova Scotia and Ontario have teamed up to buy a California power distribution company; the Canaport LNG partners are aiming to have their project up and running in time to compensate for a planned shutdown of the Sable gas project; Newfoundland-Labrador's Hebron project is finally a work in progress; StratoilHydro Canada made an exciting discovery in a new deepwater offshore area; there will be an inquiry into offshore transportation safety following a fatal helicopter crash off Newfoundland; and, Nova Scotia and Newfoundland-Labrador are upset by French plans to press for more of the seabed around their islands of St. Pierre and Miquelon. END SUMMARY.

POLITICS AND ENERGY: WRANGLING OVER U.S. EXPORT POTENTIAL

2. Canadian Prime Minister Steven Harper had to do some damage control in New Brunswick in early April when provincial premier Shawn Graham got into a public row over energy issues with Peter MacKay, the PM's key cabinet minister from Atlantic Canada. MacKay was in his home province of Nova Scotia on March 29 to unveil a C\$4 million plan to study the feasibility of building an Atlantic energy gateway to provide increased energy exports to the United States. The focus would be to develop the region's energy potential both as a means to spur economic development and to lower the region's carbon footprint through an emphasis on cleaner energy sources. However, New Brunswick Premier Shawn Graham bristled at the idea, since he already considers his province to be the region's energy hub and the lynchpin for a cross-border energy corridor/gateway. Graham accused the federal minister of trying to undercut his three-year plan to develop the hub and corridor vision, the most recent milestone of which was the agreement he signed in March

with Governor Baldacci of Maine to study the feasibility of an energy corridor (ref).

13. Premier Graham's response and further comments by his energy minister that the other provinces could not expect to simply "ram their power" through New Brunswick prompted Minister MacKay and Graham's regional counterparts, Premiers Danny Williams of Newfoundland-Labrador and Rodney MacDonald of Nova Scotia, to voice their own opinions. Each suggested that they could bypass New Brunswick in exporting their new energy supplies if the Graham government tried to thwart the energy flow through his province. It took the involvement of Prime Minister Harper to ease the tension between all parties. Premier Graham appeared to accept the PM's assurances that this new federal plan would not adversely affect New Brunswick and in fact, as the PM explained, the intent would be to marry New Brunswick's long term energy plans with the new federal focus. For now all seems quiet on the political front. Interestingly, there are some in New Brunswick who like the federal involvement, seeing this small investment of seed money as possibly leading to more significant federal support down the road.

The Lower Churchill Project and Transmission Options

14. This political wrangling has had no apparent effect on ongoing regional energy cooperation. The Government of Newfoundland-Labrador (GoN-L) is continuing its work in identifying possible transmission routes for the power from its proposed hydro development on the Lower Churchill River. The choice of a transmission route to North American markets is a key factor in assessing the project's viability and the province is doing a thorough investigation into the several options. One option is to transmit the power via a sub-sea power line to Nova Scotia and on to New Brunswick. The GoN-L has commissioned the New Brunswick System Operator (NBSO), a subsidiary of the

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provincially-owned utility New Brunswick Power, to assess if the province's electrical grid can handle the extra power from Lower Churchill. There is some debate as to how much increased capacity NBSO would need and whether NBSO might consider displacing existing users on the system. The GoN-L has also commissioned Hydro Quebec (HQ) to do a similar study, since HQ offers a competitive geographic advantage over other proposals. A third option is for the power to land in Nova Scotia where Emera, the province's energy corporation, would come up with its own plan to ship the power directly into New England via another sub-sea cable.

Upper Churchill Project: Historic Agreement with Quebec

15. Newfoundland-Labrador Premier Danny Williams announced on April 2 that for the first time, his province will be selling power directly into the North American electricity market from its existing Upper Churchill Falls hydro project in Labrador. Previously, all the power produced at the facility went to Hydro Quebec (HQ), which in turn sold the power to other jurisdictions. In 1998, the GoN-L negotiated an agreement with HQ whereby N-L would have the right to recall 300 MW of the Churchill power for use in Labrador during peak periods. Customers in Labrador typically only use approximately 170 MW of the power, and the province has been returning the remainder to HQ for reselling. The 1998 agreement expired on March 31 this year and the Williams government negotiated a new deal whereby it would sell the power itself in the North American energy market under HQ's Open Access Transmission Tariff system. Since Newfoundland-Labrador has never been a direct seller of electricity, the government contracted with Nova Scotia's Emera to sell the power for N-L until the GoN-L can develop the expertise to conduct the sales on its own.

Utilities Partner to Buy California Electrical Distributor

¶6. Emera, the parent company of Nova Scotia Power and Bangor (Maine) Hydro, announced on April 23 that it has entered into a partnership agreement with Algonquin Power Income Fund of Ontario (APIF) to invest in utility infrastructure and renewable generation facilities. As a first step in their partnership, Emera and APIF have committed to acquiring the California-based electricity distribution and related generation assets of Sierra Pacific Power Company, which currently provides electric power to approximately 47,000 customers in the Lake Tahoe region. Under the terms of the agreement, Emera and Algonquin will jointly own and operate the utility through a newly formed entity, California Pacific Electric Company (Calpeco). The transaction, which is costing the two partners US\$116 million, is subject to approval by the California Public Utilities Commission.

Canaport LNG Exports Expected to Offset Sable Shutdown

¶7. Irving Oil and Spanish partner Repsol expect that Canaport, their new liquefied natural gas terminal in Saint John New Brunswick, will be ready to receive the first shipment of natural gas from Trinidad and Tobago in June. At that point the partners can begin the terminal's cool-down and commissioning process. Timing is a critical factor as the partners are hoping that their project is fully operational in time to offset the scheduled 20-day shutdown of the Sable Offshore Energy project in August. The Sable project produces 400 million to 500 million cubic feet of natural gas and 20,000 barrels of natural gas liquids per day. Approximately 75 percent of Sable's daily output is exported to the United States.

Hebron Update: Looking for a 2012 Construction Start

¶8. Hebron, the fourth oil project offshore Newfoundland-Labrador, is finally a work in progress. In March, Exxon-Mobil, the lead company in the development consortium, filed documents with the joint federal-provincial regulator, the Canada-Newfoundland and Labrador Offshore Petroleum Board, to begin the environmental assessment of the project. The partners have also set up an office in St. John's and have started holding information sessions with local contractors. Exxon-Mobil intends to start construction in 2012 and anticipates a production start-up date for some time in 2017.

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Excitement over Discovery in Flemish Pass Basin

¶9. Norwegian-owned StatoilHydro Canada announced on April 8 that it had made a significant discovery on its Mizzen prospect in the deep waters of the Flemish Pass Basin, approximately 310 miles east northeast of St. John's, Newfoundland-Labrador. Husky Oil of Calgary also participated in the project with a 35 percent interest. The company will have to conduct further work to determine the size of the discovery and its commercial viability. Nonetheless, news of the drilling results caused much excitement in Newfoundland-Labrador as this was the first promising find outside the Jeanne d'Arc basin where the Hibernia and other producing fields are located. The drilling operation, conducted at a water depth of 3,600 feet and during the heart of the North Atlantic winter storm season, "was very challenging," according to company officials.

Regulator to Hold Inquiry on Helicopter Crash

¶10. The joint federal-provincial regulator, the Canada-Newfoundland and Labrador Offshore Petroleum Board, announced on April 16 that it will hold a public inquiry into safety issues associated with helicopter travel to and from the province's offshore oil and gas projects. This follows the crash of a helicopter off Newfoundland on March 12 which killed 17 people who were on their way to two offshore oil production facilities. The Board expects it will release further details over the coming weeks.

Provinces Upset with France over Boundary Claims

¶11. The provincial governments of Newfoundland-Labrador and Nova Scotia are upset over the French government's intention to lay claim to a larger swath of the seabed around the French islands of St. Pierre and Miquelon. The islands lie just off the south coast of Newfoundland and France and Canada have had a long dispute over jurisdiction of the surrounding waters. Both countries settled on a maritime boundary in 1992 but according to a post contact, the French have never been happy with their allotted territory. Accordingly, he is not surprised that the French want to reopen the issue especially since the 6,000 French inhabitants of the Islands want to exploit the rich hydrocarbon resources. The Canadian government is promising to take what it called "all necessary steps to defend and protect" its rights, a move welcomed by the two provinces who are just as anxious as the St. Pierrais to develop the undersea resources.
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